

## **FINANCIAL MANAGEMENT AND BUDGET PROCESS**

### **FINANCIAL MANAGEMENT PROGRAM**

The City's financial management program continues to provide the citizens of the City with an approach which has served to enhance the City's excellent financial position by:

1. Investing all available funds not needed on a daily basis in order to maximize interest earnings
2. Allocating City resources only to program areas that meet community needs
3. Monitoring these program areas to ensure they are carried out within authorized levels

This financial management program allows the City to achieve its goal of expanded and improved services to the citizens of Salisbury. Additionally, the City's bond rating of "A1" by Moody's Investors Service, Inc. was reaffirmed in April 2002. The City issued \$20.4 million Combined Enterprise System revenue bonds in April 2002 and Moody's Investor Services assigned an A2 initial underlying rating to this issue. Concurrently, Fitch Ratings assigned an A+ rating to this issue along with rating the system's \$1.8 million in outstanding parity revenue bonds A+. This is a reflection of the City's continued sound financial condition.

### **FINANCIAL MANAGEMENT SYSTEMS**

#### **FUND ACCOUNTING**

The accounts of the City are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The budgeted funds are as follows:

##### **Governmental Fund Types**

General Fund - The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. A separate equipment replacement subfund is maintained for accounting and budgeting purposes. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, transportation, environmental protection, culture and recreation, community and economic development, and general government services.

Special Revenue Fund - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City budgets one special revenue fund – a Community Development Fund.

##### **Proprietary Fund Types**

Enterprise funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds include the Water and Sewer Fund and Mass Transit Fund. An equipment replacement subfund for Water and Sewer is maintained for accounting and budgeting purposes. For financial reporting purposes, this subfund has been consolidated into the Water and Sewer Fund.

#### **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, operating statements for these funds present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The basis of accounting determines when the revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting. The governmental fund types are presented in the financial statements on the same basis. Under the modified accrual basis, revenues are recognized in the accounting period when they become susceptible to accrual (i.e., when they are “measurable” and “available”) to pay the liabilities of the current period. In addition, expenditures are recorded when the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Revenues are recognized on the modified accrual basis of accounting when they are measurable and available. The City considers all revenues available if they are collected within 60 days after year end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Rowan County is responsible for billing and collecting the property taxes on registered vehicles on behalf of all municipalities and special tax districts in the county, including the City of Salisbury. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due.

Sales taxes collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as deferred revenues.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable. Exceptions to this general rule include: (1) certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources; and (2) principal and interest on general long-term debt which is recognized when due.

The Water and Sewer Fund reimburses the General Fund for expenditures made on its behalf in the finance department and certain other central services. The General Fund pays the Water and Sewer Fund for its normal billable charges. Both of these types of transactions are considered to be quasi-external transactions and are recorded as revenues and expenses in the appropriate funds.

## **BASIS OF BUDGETING**

The City’s budget is developed on the modified accrual basis as explained in the previous section. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). Budgets for the enterprise funds are adopted on a basis consistent with GAAP except that bond proceeds and contributed capital are treated as other financing sources, bond principal payments and additions to fixed assets are treated as expenditures, depreciation expense is not budgeted, and no accruals are made for interest expense and vacation pay.

## **FINANCIAL MANAGEMENT POLICIES**

### **INVESTMENT POLICY**

The City’s investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized. Salisbury City Council has approved this policy.

#### **Policies**

- Always consider the risk factor of an investment.
- Maintain liquidity in the investment portfolio at all times.

- Consider yield only after risk and liquidity are assured.
- Only purchase investments that can be perfected.
- No purchase of derivatives.
- Use only brokerages with offices in Salisbury.
- Maintain a mix of investments with no over-reliance on a single type of investment.
- Avoid long term investments.
- Always purchase investments with the intent to hold to maturity.
- Investments are made with cash not required to meet current disbursement needs after projecting cash requirements.
- Investments are competitively bid.
- All investments require the approval of two authorized employees to complete the transaction.

#### **Investments Used By City**

- US fully guaranteed investments.
- NC State Banks' and Savings and Loan Associations' CDs, NOWS, SuperNow, Shares, and Deposits in Savings.
- Obligations of the Federal Farm Credit Bank, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association.
- Prime quality commercial paper and bankers acceptance.
- North Carolina Capital Management Trust.

#### **Custodial Risk Assumed By City**

- GAAP requires that governments classify their investment's custodial risks into categories with least risk being Category 1 and highest risk being Category 3.
- Category 1 includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name.
- All City investments are purchased and held as Category 1 investments.

### **FISCAL POLICIES**

#### **Revenue Policy**

1. The cumulative increase of revenue from the levy of property tax will not exceed five (5%) from the preceding year. The increase excludes: taxable value gained through annexation; the taxable value gained through new construction; tax increases mandated by the voters, courts, State, or federal governments.
2. The City will project revenues for five years and will update the projections annually prior to the beginning of the preparation of the annual budget.
3. The City will utilize user charges in lieu of ad valorem taxes for services that can be individually identified and where the costs are directly related to the level of service:
  - a) Recreational programs will be funded from user charges for all programs in which it is practical to charge. User charges should represent at least 15% of the total recreational budget.
  - b) Cemetery activities should be partially funded from user charges. User charges should represent at least 50% of the total Cemetery budget.
  - c) Waste Management Division's cost to use the County's landfill will be recovered completely from users.
  - d) User charges will pay for the cost of operating a recycling program.
  - e) The user charge fees for water and sewer will be sufficient to finance all operating, capital, and debt service costs for the Water and Sewer Fund.
4. All City charges and fees will be reviewed and updated annually.

#### **Operating Budget Policy**

1. Current operating revenues will be sufficient to support current operating expenditures.
2. Debt or bond financing will not be used to finance current expenditures.
3. Annually recurring revenues will not be less than annually recurring operating budget expenditures (operating budget minus capital outlay).
4. The City will prepare a five-year operating budget which will include projections of annual growth plus allowances for operating costs of new facilities.

5. The City will develop a program to replace all information systems hardware at least once every three years.
6. The City will establish an Equipment Replacement Fund for the replacement of vehicles. The Fund will purchase each vehicle and lease it back to the appropriate department over its useful life. These lease payments will create a sinking fund to be utilized to purchase a new vehicle to replace the existing one.
7. The City will establish a Risk Management Program to provide for protection against loss and a reduction in exposure to liability. The City will establish a safety program to minimize the City's exposure to liability and thereby reduce the number of claims against the City.
8. The City will avoid budgetary practices that balance current expenditures at the expense of meeting future year's expenses.
9. The City will only use one-time revenues for the funding of capital improvements or other non-recurring expenditures.

#### **Capital Improvement Policy**

1. The City will prepare and adopt a five-year Capital Improvement Program which will detail each capital project, estimated cost, description, and funding source.
2. Operating expenditures will be programmed to include the cost of implementing the Capital Improvement Program and providing all manpower, operating costs, and capital outlay required.
3. The City will prepare and update annually a resurfacing and replacement policy for street and sidewalk improvements.

#### **Accounting Policy**

1. The City will establish and maintain the accounting systems according to the generally accepted principles and standards of the Government Accounting Standards Board (GASB) and the National Committee on Governmental Accounting.
2. An annual audit will be performed by an independent public accounting firm which will issue an official opinion on the annual financial statements, with a management letter detailing areas that need improvement if required.
3. Full disclosure will be provided in the financial statements and bond representation.
4. Financial systems will be maintained to monitor expenditures and revenue on a monthly basis with a thorough analysis and adjustment (if required).
5. All revenue collections will be consolidated under the City's Finance Department.
6. The City will continue to obtain the Certificate of Achievement for Excellence in Financial Reporting and the Distinguished Budget Presentation Award from the GFOA.

#### **Debt Policy**

1. Capital projects, financed through the issuance of bonds, shall be financed for a period not to exceed the expected useful life of the project.
2. The general obligation debt of the City will not exceed 8 percent of the assessed valuation of the taxable property of the City.
3. Interest, operating and/or maintenance expenses will be capitalized only for facilities or enterprise activities and will be strictly limited to those expenses incurred prior to actual operating of the facilities.

#### **Reserve Policy**

1. The City will maintain an unreserved fund balance of 10% of the General Fund Operating Budget. These funds will be used to avoid cash flow interruptions, generate interest income, reduce need for short-term borrowing and assist in maintaining an investment grade bond rating.
2. The City will maintain a two-to-one ratio of total current assets over total current liabilities in the Water and Sewer Utility Fund.

### **BUDGETS AND BUDGETARY ACCOUNTING**

Budgetary control is an essential element of governmental accounting and reporting. The City Council is required by State law to adopt an annual balanced budget for all funds except for the fiduciary funds and to utilize "encumbrance accounting" as defined in the statutes. Budgetary control is maintained at the departmental level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of departmental balances are not released until additional appropriations are made available. Open encumbrances lapse at year end and are reinstated against the

subsequent year's appropriation. They are shown as a reservation of fund balance in the Comprehensive Annual Financial Report. Appropriations are made at the departmental level and amended as necessary. A portion of fund balance may be appropriated to balance a fund's budget. All annual appropriations lapse at year end.

The City follows these procedures in establishing the budgetary data:

1. Prior to June 1, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between departments; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, special revenue funds, and enterprise funds. Budgetary performance can be quantitatively measured and accounted for throughout the year.

## **GOAL SETTING AND BUDGETARY PROCESS**

The City Council and Management Team meet at an annual Goal Setting Retreat held for the purpose of establishing goals and priorities for the City.

In preparation for this Retreat, the City's Management Team meets with the City's Boards and Commissions for goal setting sessions and with their own departments to clarify and establish goals. Goals from the Boards and Commissions are presented to City Council prior to their Retreat.

At the Retreat, City Council adopts goals in strategic areas, either multi-year or on an annual basis. Goals guide the development of the budget for the upcoming year with the resources of the entire City organization being focused on achieving the goals. These goals are outlined in the Budget Message.

During the Retreat, the report *Balancing Costs and Services: A Five Year Service Level and Revenue Projection with Analysis* is presented to the City Council. This report describes three service levels and the related costs for each budgetary unit within the General Fund. *Balancing Costs and Services* serves as a tool for City Council to determine the financial impact of selecting various levels of municipal services for the citizens of Salisbury. This report is considered an integral part of the budgetary process and is included in its entirety in Section XII of this budget document.

The City Manager and staff assign Retreat Goals to the staff for inclusion in the upcoming budget after the Retreat. Each department manager begins considering the personnel needed, operational costs and capital outlay associated with performing the goals as set forth by City Council.

The Finance Director and staff prepare and have available on the City's server the following budgetary request forms in accordance with the Budget Calendar:

- Personnel request forms along with current staffing patterns and request information
- Operations and Maintenance request sheets along with last year's actual expense, this year's budgeted appropriation, and actual expense through seven months
- Five-Year Capital Improvement Program request forms

Upon return of the completed forms, the City Manager and Budget Team meet with each member of the City's Management Team to review his respective budget requests and justifications. The City Manager and Budget Team then evaluate each department's request for personnel, operational items, and capital outlay. The evaluation process is detailed and time-consuming. For each department, every line item justification is reviewed in light of the departmental goals and needs. Any additional personnel must be justified by the department and then assessed by Human Resources and Finance for need and appropriate staffing. Operational items are usually held to an increase no greater than that of the inflation rate.

A large impact on budgetary dollars is the amount spent on capital outlay. All departments submit a five-year capital improvement program with each item justified and ranked as to priority. Every capital outlay item is reviewed regarding need and whether the capital acquisition assists in accomplishing the stated goals. The

budget document is then assembled using a file downloaded from the financial system and combined with personal computer spreadsheets and word processing files.

The Budget Message is prepared by first outlining the issues facing the City and the results of the Goal Setting Retreat. The City Manager highlights the major budgetary discussions with supporting analyses for his recommendations. Any change in a service level is analyzed and its subsequent effects discussed.

The availability of the budget document, before and after adoption, is made known through published newspaper notices and announcements at regularly scheduled Council meetings. Additionally, the recommended and adopted budget document is accessible for downloading through the City's web site at [www.salisburync.org](http://www.salisburync.org).

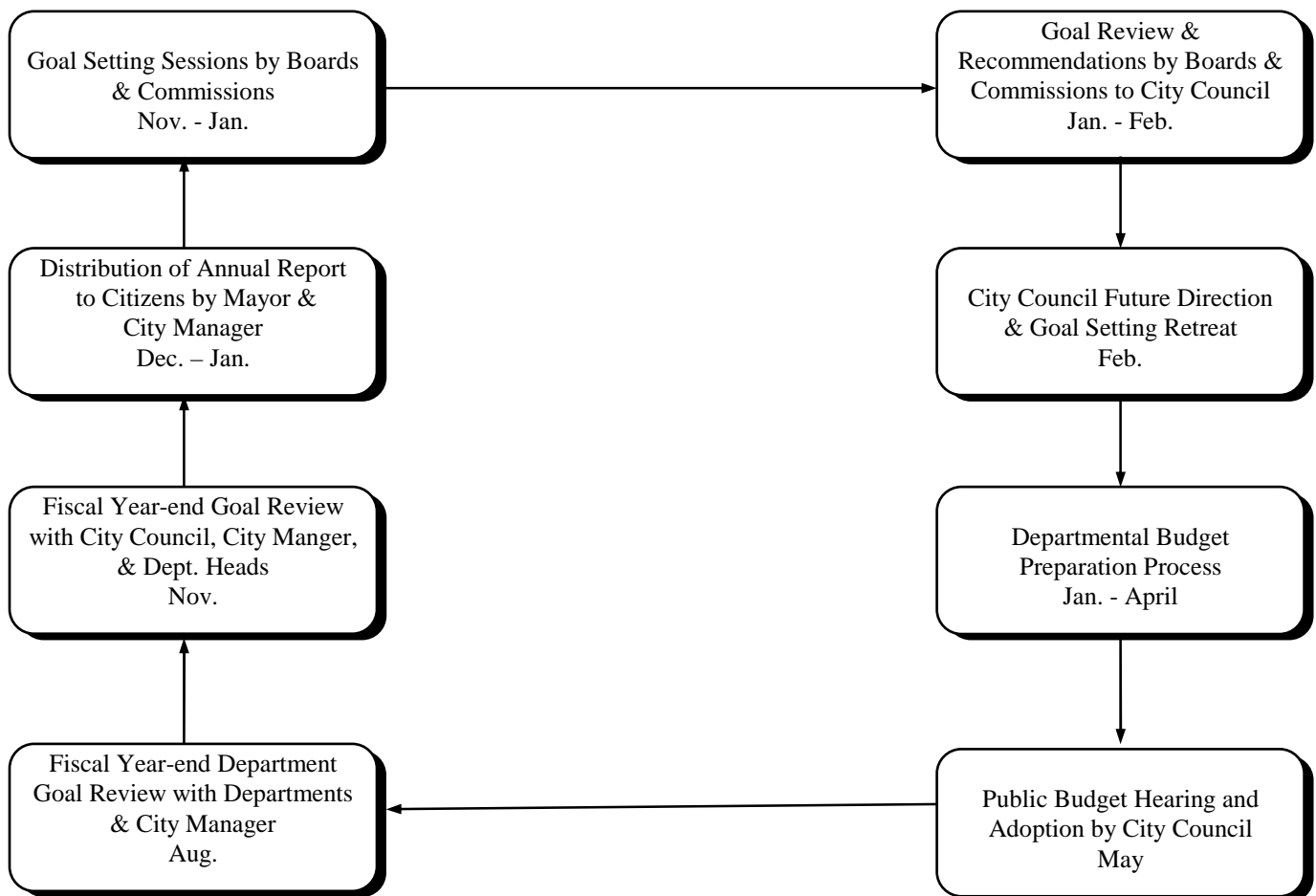
The City Manager submits the budget to City Council and after proper public notice, the City Council conducts public hearings and a budget work session. The City Council then adopts the budget through the passage of an ordinance before June 30.

Even after the budget is adopted, the goal setting process continues. After the fiscal year is ended, each department meets with the City Manager to review its previously established goals. Afterward, the City Manager and Management Team meets with City Council in a goals review session. The status of each goal is identified, i.e. on-target, behind schedule, delayed, needs clarification, rescheduled, or completed.

Based on available funding, in December/January of each year, the City publishes an annual report and mails a copy to each address within Salisbury. This report highlights information about the various services, departments, and projects of the City.

At this point, the cycle begins again for the goal setting and budgetary process. The various Boards and Commissions meet for their goal setting sessions while the City is gathering input from its citizens via surveys and group meetings. The cycle is shown below.

#### GOAL SETTING/BUDGET CYCLE





# CITY OF SALISBURY

## FY2003-04 BUDGET CALENDAR

11/25/02	Distribute 5-Year Service Level Report to be completed by Department Managers.	City Manager and Finance Director
1/2/03	Complete 5-Year Service Level Report and return to City Manager.	Management Team and Division Managers
1/13/03	Present proposed Budget Calendar to Budget Team for review and comment.	City Manager and Finance Director
1/15/03	City Manager's Budget Team to prepare FY2003-04 Budget Calendar for approval by Mayor and Council and distribution to the City Management Team.	City Manager and Finance Director
1/1 - 1/31/03 Distribute to Mgmt Team on or before 2/4/03	<p>Prepare Personnel Request forms; present staffing patterns and Personnel request information.</p> <p>Prepare Operations and Maintenance request sheets. Finance Dept. distributes end of year Budget estimates. The Management Team and/or the appropriate Division Manager will determine departmental line item budget requests.</p> <p>Prepare FY2002-03 -- 2007-08 Capital Improvement Program request forms.</p>	Finance Director
TBD	Vehicle Review Committee meeting for evaluation of vehicles	Vehicle Review Committee
2/13/03	Hold CDBG Public Hearing on citizens needs and concerns.	Land Management Staff and CDBG Consultant
2/4/03 & 2/18/03	Chairmen of Boards and Commissions to present goals to City Council.	Chairmen of City Boards and Commissions and appropriate City Staff
2/20 – 2/21/03	Hold Goal Setting Retreat to establish goals.	Mayor, City Council, City Manager and Staff
2/24 – 3/28/03	Prepare FY2002-2003 year-end revenue estimates and FY2003-04 revenue estimates on all funds.	Finance Director, Utilities Director and Transit Manager
2/27/03	Assign Retreat Goals to Staff for inclusion in Budget.	City Manager and Staff
3/4/03	Complete all budget request forms no later than March 4, 2003.	Management Team and Division Managers
3/4/03	Evaluate all Personnel Requests for any changes from current staffing patterns.	Human Resources, Department Heads and Finance
3/4/03	Hold CDBG Public Hearing to receive citizens' comments and receive proposals.	City Council



# CITY OF SALISBURY

## FY2003-04 BUDGET CALENDAR

3/18/03	Presentation of oral and written Budget requests to Mayor and Council.	Special Interest Groups
As Returned	Review of Specific Budget Proposals.	Budget Team, Department Head and Division Manager
3/18/03	Present first draft of 2003-04 CDBG Budget and HOME Budget to City Council for review and consideration.	CDBG Consultant
4/1/03	City Council to approve 2003-04 Action Plan for CDBG and HOME application after second reading.	City Council
4/14 – 4/18/03	Review recommended Budget with Departments.	Finance Director, City Manager and Staff
4/29/03	Distribution of City Manager's recommended Budget.	City Manager and City Management Team
5/6/03	City Manager to preview recommended Budget for City Council.	City Manager
5/7/03	Place ad in THE SALISBURY POST to advertise one time for public hearing on June 3, 2003.	City Clerk
Based on Scheduling	Place ad in THE SALISBURY POST to give Notice of Budget Work Session.	City Clerk
Based on Scheduling	City Council Budget shirt sleeve work session on proposed Budget.	City Manager, City Management Team and City Council
6/3/03 4:00 P.M. Council Chambers	Hold a public hearing on the adoption of the Budget.	City Council
6/3/03	City Council to adopt Budget.	City Council
7/14/03	Report tax rate to Rowan County Tax Supervisor.	City Clerk
Summer 2003	Brief Boards and Commissions Chairmen on Adopted Budget.	Chairmen of City Boards and Commissions and appropriate City Staff